



January 25, 2017

Senator Jack Brandenburg
201 Townsend Street
Suite #7500
Lansing, MI 48933

RE: SB NO. 14, WORK OPPORTUNITY ACT

Dear Senator Brandenburg,

Kelly Services would like to thank you for introducing legislation to create a Michigan work opportunity employer reimbursement program as part of the criminal justice reform package. This proposal will reduce state expenditures for public assistance programs in the most effective and compassionate manner, by opening up job opportunities for individuals who are the most difficult to move into the workforce. It is excellent public policy.

The federal work opportunity credit was enacted in 1996 as part of welfare reform, and provides an incentive for employers to hire workers who are otherwise disadvantaged in the workplace. Recent studies by Wharton School of Business Professor Peter Cappelli quantify the economic benefit of the credit on federal and state budgets. As noted in the enclosed letter, it's estimated that the federal credit saves Michigan nearly \$47 million annually.

To supplement the federal credit, some states have enacted state level work opportunity credits, and Michigan would benefit in adopting SB 14. The federal credit has not been increased since enactment, and is not used much by medium and small employers. By adopting SB 14, Michigan would send a clear message to employers of its commitment to partner with them to reduce public assistance costs in a responsible and socially compassionate manner, while providing an incentive to encourage employers to hire individuals who are often overlooked. The addition of a Michigan work opportunity employer reimbursement program to the federal credit will make our state an even more attractive place for employers to expand.

A recommendation to ease administration and enhance SB 14's benefits is to simply mirror the federal work opportunity credit program's definition of an ex-felon, and subsidy computation. This would allow use of paperwork and certification processes already in place, easing administration for employees, employers, and State administrators. It would also focus the credit on first-year wages, not an arbitrary definition of a "full-time job," and not mitigate benefits by limiting the reimbursement to \$7,200. See the federal statute enclosed.

The work opportunity credit enjoys federal bipartisan support because it reduces welfare costs while helping to lift individuals out of poverty and into stable employment and self-sufficiency. Supplementing the federal program in Michigan will increase these benefits and promote a pro-employer environment. Further, once this new program is up and running, expansion to other federally targeted groups (e.g., veterans and the long-term unemployed) is recommended to continue to increase Michigan's benefits.

If you have any questions, please contact me at 248-244-4381, or orsinmf@kellyservices.com.

Sincerely,

Michael F. Orsini
Vice President, Tax & Treasurer

cc:

The Committee on Michigan Competitiveness. Senators O'Brien, Proos, Colbeck, Knollenberg, Jones, Booher, Horn, Schuitmaker, Hansen, Kowall, Gregory, Johnson and Warren



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Peter Cappelli

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July 14, 2014

Dear Members of Congress and State Lawmakers:

The report on WOTC State Level Savings follows the format in my 2013 study, "A Detailed Assessment of the Value of WOTC." The report goes a step beyond my study.

My study calculated the savings in Federal programs of assistance for those who are unemployed and in poverty, specifically TANF, SNAP, Medicaid and housing assistance from HUD. The calculation was per person, for each person who moved out of unemployment because of WOTC. It included the following adjustments, first that some of the people who are not certified for WOTC will be hired, second that some employees will continue to receive some level of the above Federal benefits and a small number would have been hired despite the recruitment efforts under WOTC and also due to direct referrals from local agencies serving the eligible population. I concluded that the United States gains almost \$18,000 in savings for each individual hired through WOTC, without taking into account savings in programs beyond TANF, SNAP, Medicaid, and HUD, which could also be considerable, including veterans assistance programs given the considerable hiring of veterans under WOTC.

The State-Level Savings report calculates the total savings for each state associated with each state's contributions to the above programs when individuals eligible for WOTC move into jobs. The calculation begins with the number of individuals hired who employers report are eligible and certified for WOTC. A qualification made here is based on the fact that not all hires who employers believe are eligible for WOTC turn out in fact to be certified. How exactly those cases should be considered in calculating the effects of WOTC is not straight-forward: on the one hand, they were not actually eligible; on the other, they were presumably hired at least in part because of the presumption of their eligibility. The main difference is that while their employers turn out not to get the tax credit associated with WOTC, the individuals are hired and the federal and state government nonetheless get the savings associated with hiring individuals who are on public assistance. The state level savings report includes only the savings associated with certified individuals. The state level study concludes that state governments in the aggregate save close to \$1.7 billion a year in public assistance costs as a result of hiring under WOTC, costs that they will need to shoulder if WOTC is not renewed.

The data collection exercise associated with this report was considerable. It includes gathering the information from the US Department of Labor on the number of WOTC-certified workers hired in each state; the dollar contribution of each state toward each of the four programs above (taken from official sources); estimates from Federal statistics as to how many of the WOTC-certified hires received TANF, SNAP and Medicaid; while I used HUD housing support in my federal study the state study does not include anything beyond TANF, SNAP, and Medicaid. The number of WOTC-certified individuals in each state receiving each type of benefit was then multiplied by the per person contribution toward each program made by each state. That figure was then added across each of the three programs to generate the total savings by state.

These estimates are quite likely conservative given that many states have supplemental programs to assist the kind of disadvantaged individuals who are eligible for WOTC, none of which are included here. Many of these programs provide direct financial support, but the most expensive are likely to be training programs and workforce readiness programs.

Overall, the savings estimates calculated in the WOTC State Level Savings are sizable. They should be considered along with the even larger savings at the Federal level as a measure of the value and usefulness of the program.

A final point to remember about WOTC is that its cost-effectiveness is enhanced by the fact that there is no cost – in the form of the tax credit to employers – unless an eligible individual is hired through the program. Because of that, there is no opportunity for the program to be a waste of taxpayer funds.

Sincerely,



Peter Cappelli



WOTC State Savings, Peter Cappelli (2014)

In his April 2013 study, "A Detailed Assessment of the Value of WOTC" Professor Peter Cappelli of the Wharton School quantified the savings in social spending programs to the United States government that are generated by moving an individual from public assistance to private sector employment through the Work Opportunity Tax Credit (WOTC).

The study that follows, prepared under Professor Cappelli's supervision, quantifies the savings at the state level in three programs which formed the basis his 2013 federal level study.

The overall savings figures may in reality be greater because the calculations do not take into account state programs which are very difficult to quantify, including housing, health and wellness, crime prevention, and government run training programs.

WOTC State Savings Summary

State	Total Savings
Alabama	\$27,512,523
Alaska	\$2,913,292
Arizona	\$20,788,032
Arkansas	\$12,525,876
California	\$108,851,953
Colorado	\$70,204,055
Connecticut	\$10,567,538
Delaware	\$3,962,477
DC	\$2,232,810
Florida	\$88,392,794
Georgia	\$44,499,759
Hawaii	\$2,409,068
Idaho	\$5,037,183
Illinois	\$35,366,499
Indiana	\$30,627,632
Iowa	\$18,722,866
Kansas	\$17,160,488
Kentucky	\$39,220,368
Louisiana	\$26,920,725
Maine	\$11,306,925
Maryland	\$20,117,971
Massachusetts	\$26,813,312
Michigan	\$47,785,901
Minnesota	\$35,628,151
Mississippi	\$13,283,406
Missouri	\$48,701,253
Montana	\$2,222,131
Nebraska	\$15,098,894
Nevada	\$2,986,493
New Hampshire	\$5,776,361

WOTC State Savings, Peter Cappelli (2014)

New Jersey	\$7,683,298
New Mexico	\$4,785,725
New York	\$124,083,334
North Carolina	\$55,335,019
North Dakota	\$3,857,357
Ohio	\$117,014,861
Oklahoma	\$21,725,773
Oregon	\$7,855,253
Pennsylvania	\$138,455,443
Rhode Island	\$2,471,201
South Carolina	\$24,494,695
South Dakota	\$4,709,001
Tennessee	\$58,795,768
Texas	\$149,554,279
Utah	\$8,885,776
Vermont	\$2,244,763
Virginia	\$62,998,989
Washington	\$34,546,718
West Virginia	\$13,065,143
Wisconsin	\$26,892,754
Wyoming	\$913,131
Total	\$1,668,005,017

WOTC State Savings, Peter Cappelli (2014)

WOTC STATE LEVEL SAVINGS EXPLANATION OF COMPUTATIONS

The computations are as follows:

TANF: The percentage which states contribute to TANF was taken from the FFIS report, derived in turn from Federal Government statistics. The number of participants in TANF in each state and the average TANF benefit per state are taken from Federal Government statistics in a November 21, 2011 report of the Center for Budget and Policy Priorities. These figures were used to derive the average amount of the annual TANF benefit that each state contributes to recipients.

Individuals hired in several WOTC categories are recipients of TANF benefits and the number certified (and hired) in each category is provided annually by the US Department of Labor. Two WOTC categories are specific to individuals on TANF. The Congressional Budget Office in a 2012 report on the food stamp (SNAP) program found that 60% of individuals on SNAP are also on TANF, and as a result, 60% of individuals certified for SNAP are added to the TANF categories to compute the total TANF state level savings under WOTC.

SNAP : Although SNAP is a federally funded program, states contribute to the administration of SNAP and the amount of that state level expenditure is also listed in the FFIS report. The chart derives these savings by dividing the total spent by each state to administer its SNAP program by the number of SNAP participants in each state (that number was taken from the USDA February 2014 report on the "Characteristics of SNAP Households)." The average expenditure for SNAP per individual was multiplied by the number of individuals certified for WOTC under the SNAP category to determine savings.

A reduction adjustment was made to the overall WOTC savings in SNAP and TANF in the amount of 11% to account for the likelihood that not all WOTC hires will earn sufficient amounts to completely come off of these programs as was done in the April 2013 Cappelli study.

MEDICAID: Using figures from the Kaiser Family Foundation the WOTC savings in state Medicaid programs were added to the TANF and SNAP totals. These were derived by determining the total state contribution to Medicaid (by multiplying the total Medicaid spending in a state by the state's FMAP – its share percentage – and multiplying that by the number of WOTC hired individuals who are on Medicaid. This last number is a combination of 60% of all SNAP certified individuals (CBO statistics indicate that 60% of individuals on SNAP are also on Medicaid) and 98% of the WOTC TANF certified individuals who statistics show are also on Medicaid.

The total Medicaid savings are adjusted down by 50% to account of individuals who are hired at wage levels that would continue to qualify them for Medicaid.

Final Adjustments : Two final adjustments are made to the savings totals. First, based on a study by New York State under Governor Pataki that showed the average WOTC recipient is retained in the job and is off public assistance for 2.3 years, even though the credit with one small exception is provided for just one year, the total is multiplied by a factor of 2.3. (Because years overlap, the states will realize the total amount of savings computed in these charts in a single year; the first year savings of someone certified in that year should be added in each year to the second year for savings for some certified in the prior year and so on).

A second adjustment reduces the savings by 25%, consistent with Professor Cappelli's finding that while WOTC is a very effective program, an allowance should be made for the possibility that WOTC may not be the main factor driving every hire under the program. Professor Cappelli uses a 25% reduction factor in this regard.